

CEPS COMMENTARY



Thinking ahead for Europe

Between a rock and the Multiannual Financial Framework

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The Commissioner for Financial Programming and Budget, Janusz Lewandowski, has presented the budget for 2013 showing an increase in commitments of only 2%, but an increase in payments of 6.8% (compared to 2012). This has led to predictable condemnations in the press, and the European Commission has been criticised for being out of touch with reality. Yet, it is rather the lack of reality on the part of the critics that is worrying. The EU budget is *by design* inflexible, and the Multiannual Financial Framework (MFF) has been introduced precisely to stop yearly debates among member states about the size of the budget. It is designed to avoid short-term changes being demanded by member states, the Parliament or the European Commission. Cutting the budget for 2013 would represent a change to the Multiannual Financial Framework that was agreed by heads of state in 2005, and would thus require a renegotiation of the ceilings and the unanimous approval by all member states - an unconceivable move, for a number of reasons.

The EU budget is made up of the allocations agreed in the Multiannual Framework, mostly to countries and regions. The increase in the *payments* budgeted for 2013 is unavoidable and is based on European Union obligations under existing policies and programmes. Many payments are based on contractual obligations made up to two years previously. A project signed and 'committed' in 2011 can thus be called for payment until 2013, a flexible rule called 'n+2' and essential to the feasibility of large infrastructure projects and complex programmes.

Very few areas of the budget can be altered by decisions of the European Commission, i.e. those not allocated in advance to sectors, countries and regions, and not committed already. There is a limited amount of funding in those categories, such as funding for R&D; not exactly the best choice when looking to make cuts.

By nature and due to the n+2 rule, as the MFF advances, the implementation of programmes also accelerates, so payments tend to increase at the end of the MFF period. For regional policy, budgetary decisions in one specific year only have an actual payment effect later. Many payments scheduled for 2013 originate in 2011 and the low increase in commitment budgeted for 2013 will mean lower payments in 2014 and 2015.

It is also important to note that considerable savings have been made already. The budgetary expenditures are de facto lower than those allowed in the MFF agreement that covered 2007-2013. Actual payments today are below the planned payment appropriations by approximately €10 billion. For 2012, the payment appropriations are €129 billion, well under

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the €141 billion appropriations agreed in the MFF, and represent 0.99% of GNI, well below the 1.08% that was projected. In fact, EU budget payments have always been lower than the MFF payment ceilings of the last two decades, and its share of GNI has been falling steadily since the early 90s, despite an enlargement (see figure, below). The apparent increase in expenditure between 2008-2009 as a share of GNI is a statistical effect of the impact of the financial crisis, as *actual payments were lower in 2009 than in 2008*. The share of total member state public expenditure to GNI showed the same spike between these two years for the same reason, increasing from 46.9% to 50.3% of GNI. In fact, the share of EU budget expenditure in relation to total EU government expenditure *fell* from 1.93% to 1.87% between 2008 and 2009.

The reduction in the EU budget as a share of EU GNI



Source: Gros, D, Budget presentation at CEPS Task Force (updated for 2011-2012),

There is a complete lack of critical analysis in the current debates about budget size. Today we are likely to see a slight rise in the share of EU budget expenditure in relation to total government expenditure in the EU member states (between 0.001-to 0,002%), as national budgets are cut. However, the nature of the MFF simply does not allow it to follow suit, unless member states voluntarily and unanimously agree to reduce payments under the Common Agricultural Policy and/or regional funding, including paying national beneficiaries with signed contractual agreements from their own national funds.

Member states also seem to 'forget' that savings in the EU budget will not necessarily lead to a fall in their public expenditure; no account is taken of the savings and economies of scale of actions at European level. One obvious case is the criticism that has been raised for the increases in administration costs due to the creation of the European External Action Service. This service has the potential to create an overall saving to public expenditure and aiding European-level budgetary consolidation.

In conclusion, this budgetary discussion is unhelpful and mainly an exercise in political posturing and misinformation. The only outcome would be excessive and avoidable political damage to the EU, without benefiting budget deficit reductions, citizens' lives or the European economy.